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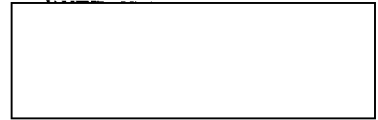
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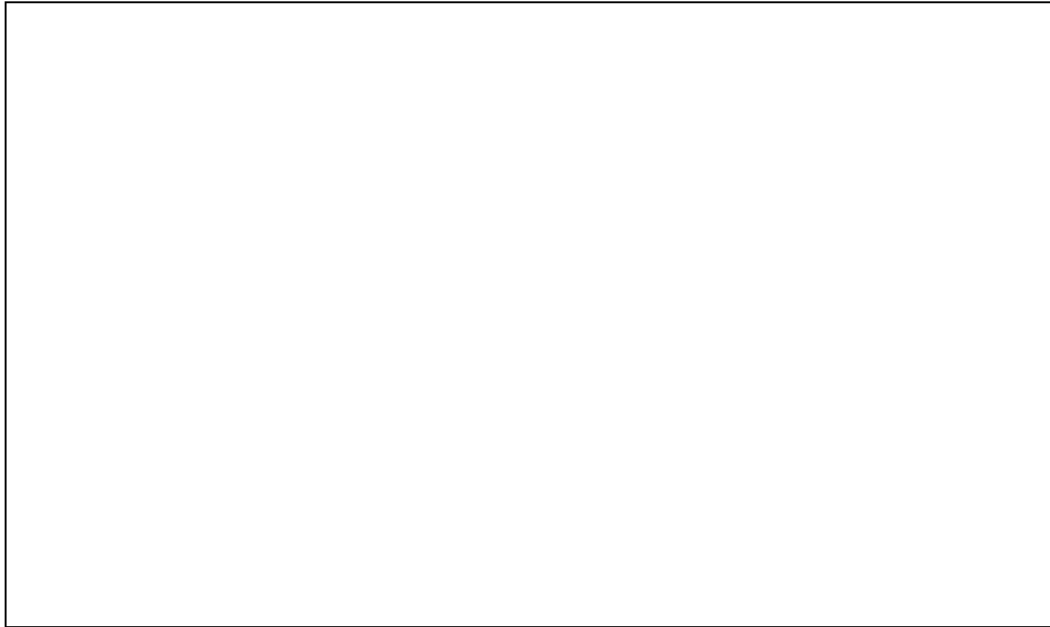
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SITUATION REPORT

IRAN

Intensified public attacks on the USSR by Tehran reflect the Iranians' conviction that the Soviets are interfering in Iran's internal affairs as well as in Foreign Minister Ghotbzadeh's maneuvering in the domestic power struggle.

Tehran radio yesterday broadcast a letter from Ghotbzadeh to Soviet Foreign Minister Gromyko in which Ghotbzadeh responded to an earlier Soviet memorandum that apparently voiced concern about the deterioration in bilateral ties. He accused the Soviets of providing significant material and intelligence aid to the Kurds and the Tudeh Party and of using Soviet diplomats "to contact the enemies of the Islamic revolution." He again urged the Soviets to withdraw from Afghanistan, reduce their embassy staff in Tehran, and allow Iran to establish a consulate in Dushanbe.

Ghotbzadeh's statements follow earlier criticisms of the Soviets by Ayatollah Khomeini and Iranian Ambassador to the USSR Mokri.

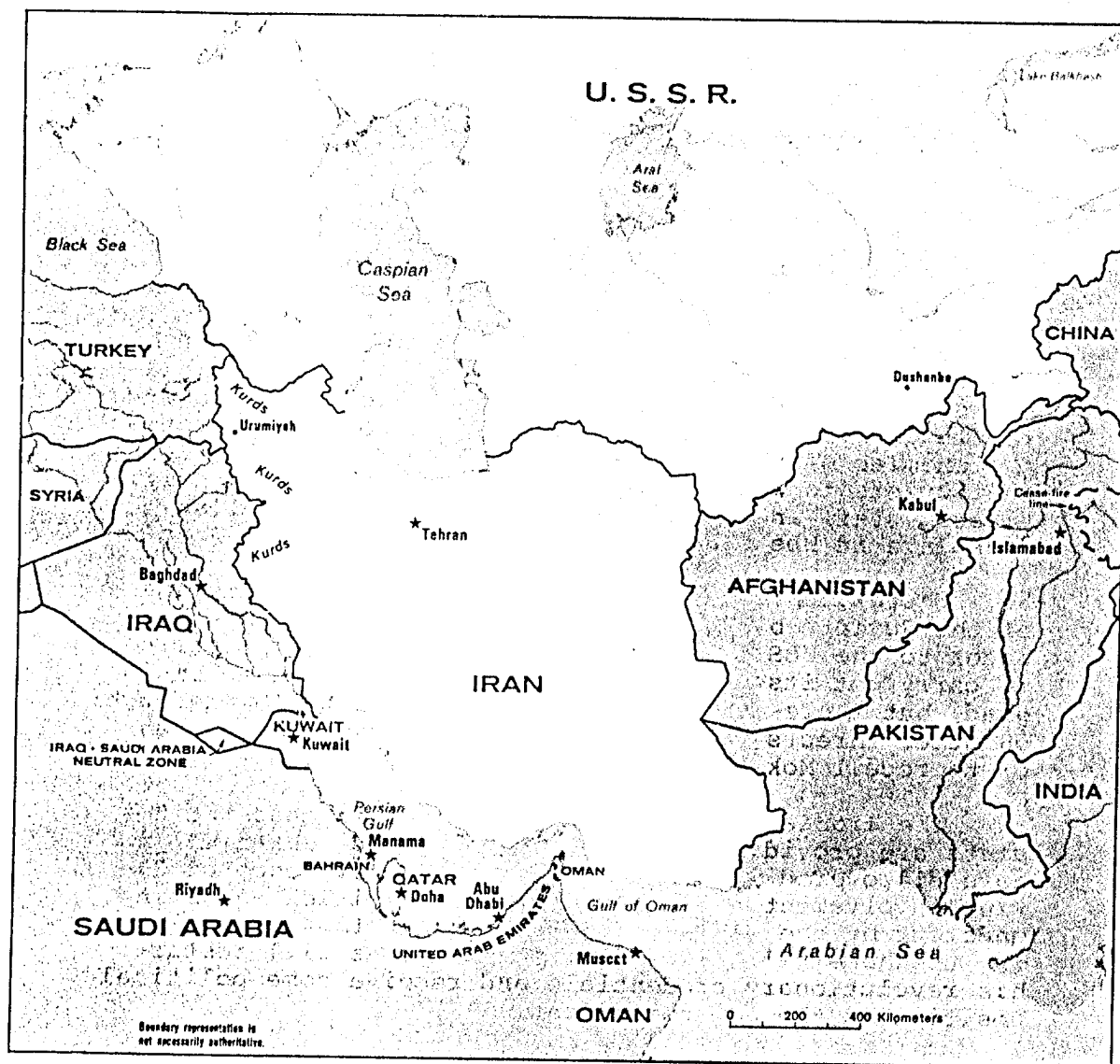
The Iranians have long been convinced that the Soviets are providing aid to the Kurds, and Tehran may have discovered what it believes is new evidence of Soviet involvement. Ghotbzadeh--whose position has been undercut by the clerics--probably hopes that by following up Khomeini's anti-Soviet attacks, he will restore his revolutionary credentials and receive some political position in the new government.

The Soviets have continued to criticize Ghotbzadeh. A broadcast on Monday by the Soviet-sponsored National Voice of Iran charged that Ghotbzadeh's policies defended US "imperialism."

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Moscow has not responded to the criticism from Khomeini and Mokri, but Ghotbzadeh's detailed attack seems likely to prompt a strong rebuttal. At the same time, however, the Soviets almost certainly will leave the door open for improved relations with the clerical leadership.

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BRIEFS AND COMMENTS

IRAN: Impact of Sanctions

Allied sanctions are having the most impact on Iran's import costs. [redacted]

The volume of goods reaching Iran appears to be approaching presanction levels but the difficulties of lining up purchases have raised Iran's cost of doing business by at least 10 percent. Despite unenthusiastic support for sanctions in the EC, Japan, and Canada, direct exports by the allies to Iran fell off sharply compared with previous months. [redacted]

[redacted] None of the allies has officially taken steps to inhibit transshipments, although in theory they are not allowed under sanctions. [redacted]

Two major transshipment centers, Austria and Switzerland, are likely to attempt to persuade companies to limit transshipments since both countries indicated when sanctions were first imposed that they would not permit themselves to become major channels for embargoed trade. Such measures, however, are unlikely to reduce substantially illegal trade flows. Meanwhile, countries not bound by sanctions--particularly China and South Korea--are rushing in to pick up whatever business they can. [redacted]

The decline in trade in June should only begin to affect Iran this month because of shipping lead times. The disruption will be hitting at a time that the summer harvest is improving food supplies. Although shortages of certain industrial spare parts and raw materials may increase, the likely rise in deliveries in September should prevent any major problems. [redacted]

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CUBA-US: Conciliatory Gestures

President Castro appears to be signaling a desire to avoid a confrontation with Washington and probably remains interested in engaging comprehensive bilateral talks. [REDACTED]

[REDACTED]

Cuban authorities have been cooperative in their handling of the recent hijackings of US aircraft to Cuba. [REDACTED]

[REDACTED]

Cuban authorities also have afforded favorable treatment to the more than 125 former political prisoners and their families who have left the US Interests Section in Havana during the past week. Most were processed quickly, given letters advising local officials not to harass them, and promised that they would be leaving the country soon.

[REDACTED]

Castro could send additional signals to the US by agreeing to release other US citizens from Cuban jails, satisfying US requests for further information relating to the recent hijackings, and restricting the flow of refugees to the US from Mariel harbor.

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SYRIA: More Violence Likely

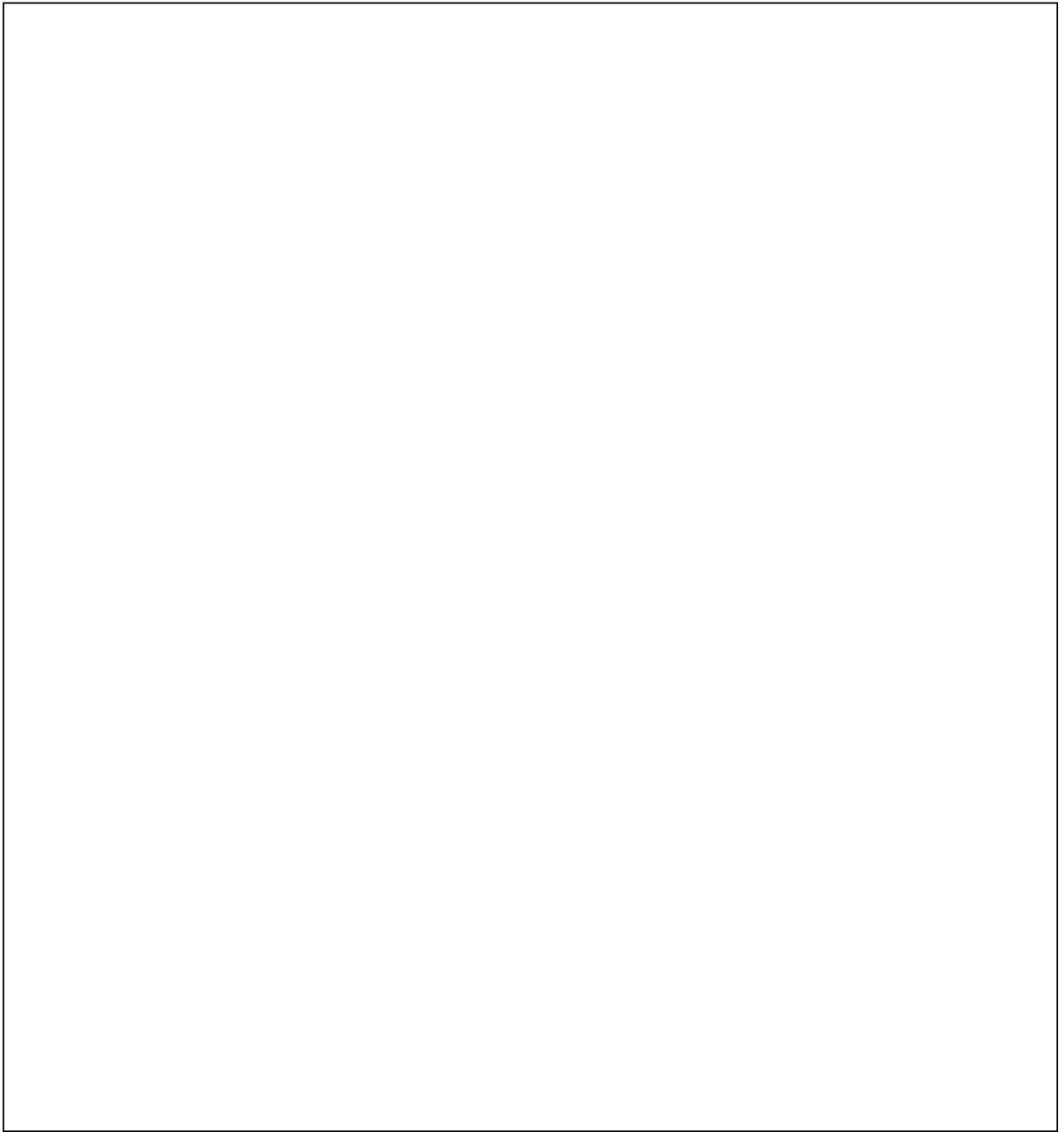
Violent attacks by Muslim Brotherhood extremists seeking to undermine President Assad's minority Alawite regime may increase now that the Muslim holy month of Ramadan has ended.

The recent decline in opposition activity may have been due more to religious observances associated with Ramadan than to the brutal security crackdown launched immediately after the nearly successful assassination attempt against Assad in late June. Hardcore extremists, nevertheless, continued to attack military and security patrols in the northern city of Aleppo, where the anti-regime movement has been strongest, and to commit isolated acts of terrorism in Damascus and other cities.

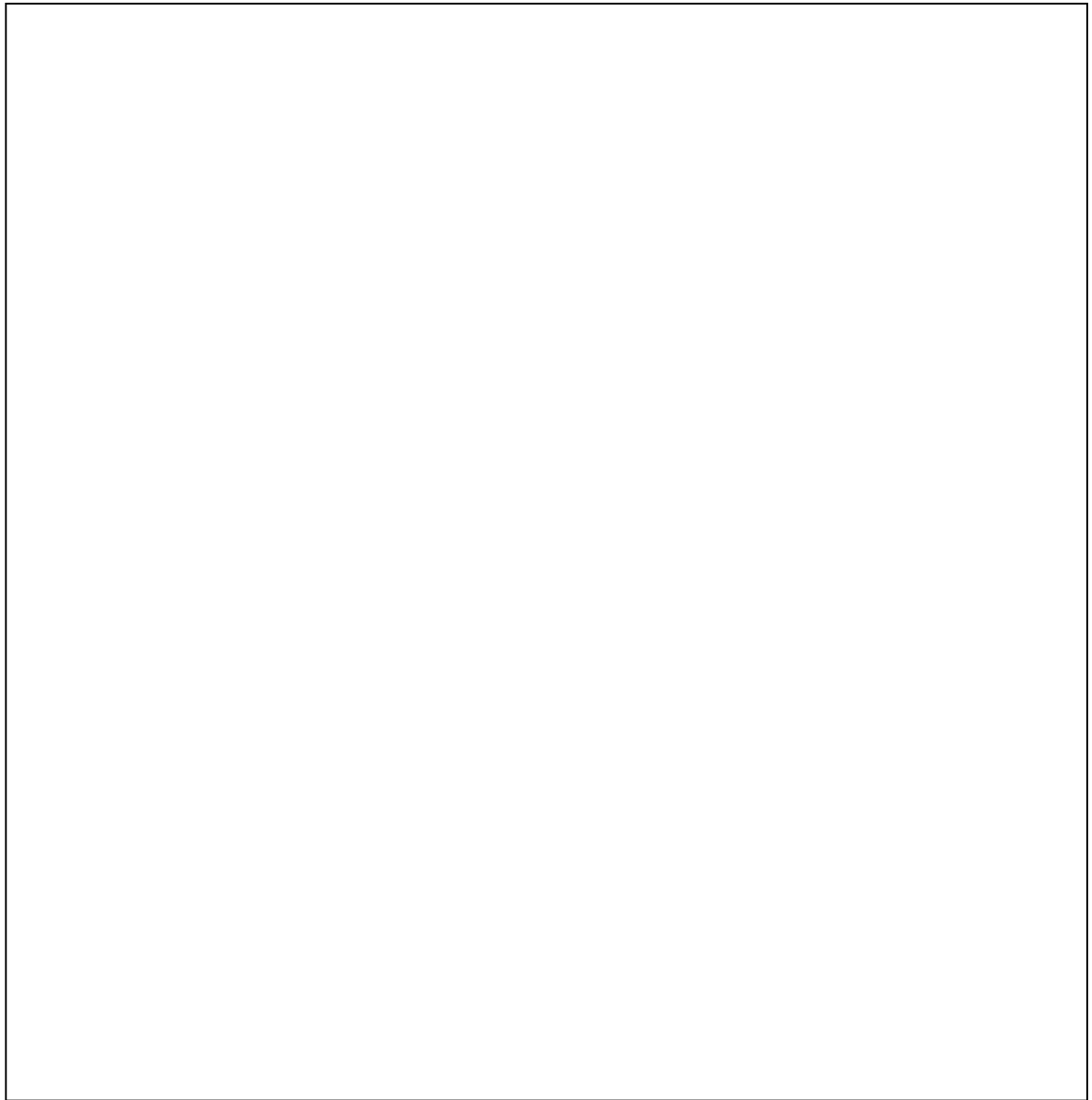
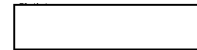
The government has extended to 28 August its program exempting Muslim Brotherhood members from the death penalty prescribed by a recent law if they resign from the organization, but this move is unlikely to entice hardcore extremists. The program appears to have been only marginally successful,

A key test of the government's control over domestic unrest will be whether it can continue to keep Damascus from experiencing the extensive violence that has erupted in cities in the north. As long as Assad controls the capital--historically a prerequisite for ruling Syria--and retains the loyalty of the military, his principal near-term threat will be another assassination attempt.

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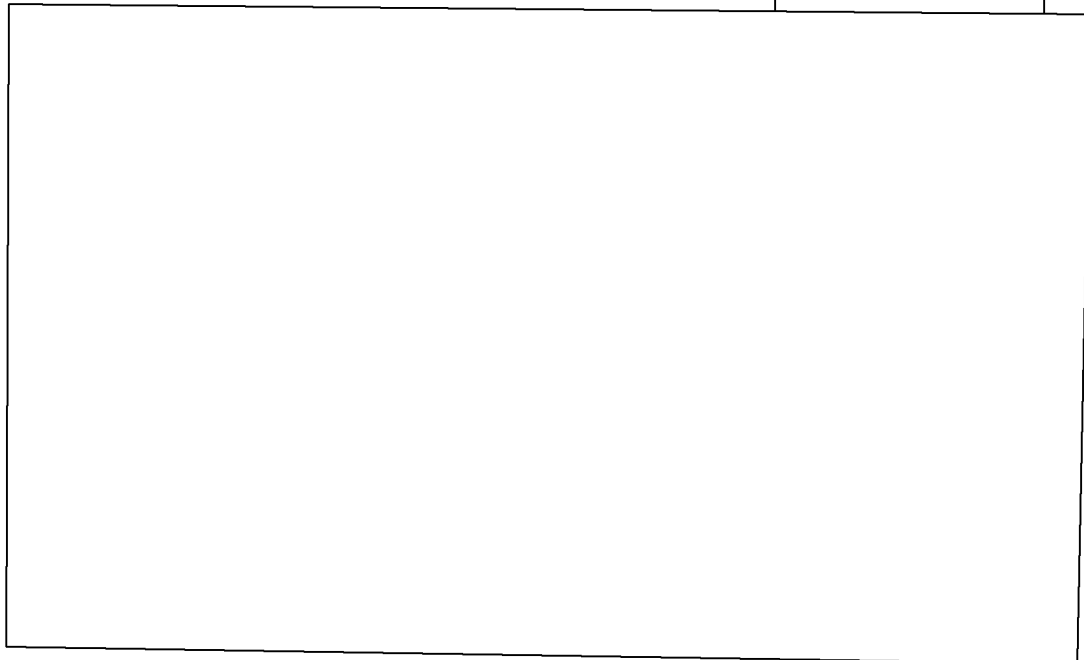


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USSR-ZIMBABWE: Moscow and Mugabe

Moscow is using its relationship with the Zimbabwe African People's Union as a bargaining tool in its efforts to convince Prime Minister Mugabe to establish diplomatic relations.



Mugabe remains in no hurry to establish diplomatic ties with Moscow. In any case, he would not do so unless he were satisfied that the Soviets would not use their ties with ZAPU to interfere in Zimbabwean internal affairs.

The Soviets probably see their relationship with Nkomo as one of their few levers on Mugabe. They are likely to continue to hold out the threat of supporting Nkomo as an alternative to the new regime until they are confident that Mugabe has dropped his hostile attitude toward the USSR.

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SURINAME: Military Takeover

The military assumption of emergency powers in Suriname appears to represent a consolidation of moderate forces.

Prime Minister Chin A Sen, a civilian, has become acting president, but Army Commander Daysi Bouterse appears to have emerged as the strongman. Citing threats from both left and right and suggesting outside interference, Bouterse indicates the military will proceed against corruption and economic stagnation.

Bouterse, who has resisted Cuban blandishments, presumably was accusing Havana of intervention.

Circumstances of the abrupt military move are still unclear, at least partly because the government has curtailed all communications and closed the borders. Under a state of emergency, the constitution is suspended, a curfew is in effect, and press censorship is imposed.

no US citizens are endangered and that no violence is anticipated.

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ROMANIA-EGYPT: Peace Initiative

In a joint statement issued after a meeting yesterday between President Ceausescu and Egyptian Minister of State for Foreign Affairs Ghali, the two parties stressed the importance of "looking into the possibility of convening an international conference" to seek a comprehensive settlement of the Arab-Israeli dispute. President Sadat himself has not yet publicly endorsed this concept, but may view this signal of interest in Romania's peace initiative as a way of putting further pressure on Israel and of maintaining some motion in the settlement process during the hiatus in the autonomy talks. Ceausescu will attempt to use the statement to drum up further support for his peace conference proposal during his visit to Jordan next week.

SOUTH KOREA: Trial of Kim Dae Jung

Dissident leader Kim Dae Jung was formally charged with subversion yesterday as his court-martial got under way. Kim's conviction is virtually assured, but speculation continues on his ultimate fate. The military judges probably will pass a death sentence, which may be commuted to life imprisonment. Kim's supporters have been unsuccessful in retaining a lawyer for him, and he reluctantly has accepted counsel appointed by the court. Friends, relatives, and a limited number of journalists and foreign diplomats--but no representatives of international human and legal rights organizations--will be permitted to attend what could be a lengthy trial.

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SAUDI ARABIA - KUWAIT: Freeze on Loans

Moves last month by the International Monetary Fund and World Bank to block attendance by representatives of the Palestine Liberation Organization at their annual meeting may have an adverse impact on Arab funding of the organizations. Proposed loans of \$402 million by Saudi Arabia and \$86 million by Kuwait--partly underwritten by a Kuwaiti investment company--were frozen in response to the moves. The curtailment of Arab loans could affect new World Bank programs for energy development and structural adjustment in developing countries. In the past, Islamic states had provided less than 10 percent of Bank borrowings. IMF officials also may have difficulty during their visits in August to Saudi Arabia, Kuwait, and the United Arab Emirates in raising funds to assist developing countries with acute balance-of-payments problems. Arab countries were major contributors to similar IMF programs in 1974 and 1979.

ABU DHABI: Oil Production

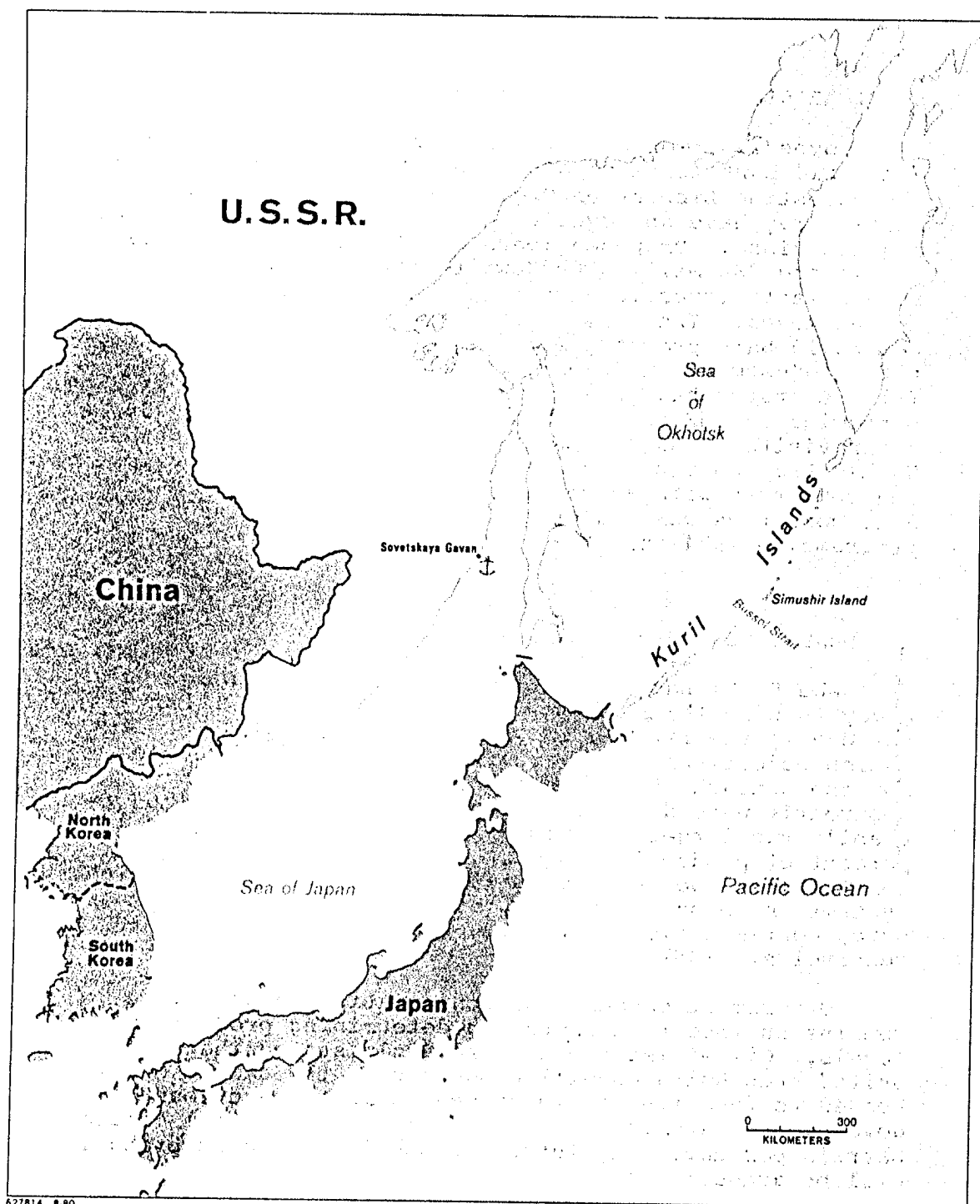
Abu Dhabi has cut oil production

Although conservation objectives were officially cited as the reason for the cutback, the size and timing of the reduction apparently were dictated by technical problems at Abu Dhabi's two largest onshore fields that supply about 40 percent of production.

Government concern for conservation, however, remains an important factor in determining production levels. Oil Minister Otaiba recently stated that the United Arab Emirates will produce only the amount of oil needed to fund its continued development. Previous government statements place this level at about 1 million barrels per day. Any future production cutbacks probably will be gradual.

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USSR: Naval Facility in Kuril Islands

The Soviet Navy has established a small installation
[redacted] on Simushir Island in the Kuril
chain. [redacted]

KAMPUCHEA: Sihanouk's Plans

Prince Sihanouk [redacted]
[redacted] plans no further political activities
regarding Kampuchea and [redacted] is reconciled to
indefinite Vietnamese hegemony there. He still refuses
to cooperate with Pol Pot and advocates an "empty seat"
formula for Kampuchean representation in the UN.
Sihanouk apparently has concluded that he has no leverage
at this point, but he still seems to believe that the
Vietnamese ultimately may be forced to enter political
discussions in which he will play a role. [redacted]

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SPECIAL ANALYSIS

ETHIOPIA: The Revolution Stagnates

[REDACTED]

The military regime in Addis Ababa continues to be beset by economic and military problems that have hampered the progress of its socialist revolution. Although some of the regime's policies initially were well received, unfulfilled expectations and the ruling military council's heavyhanded tactics have eroded popular support. Nonetheless, Chairman Mengistu has purged or co-opted his major opponents and remains firmly in control with the support of the military. [REDACTED]

Almost six years ago, Ethiopia's military leaders--reacting to the backwardness and excesses of the pro-Western monarchy--began to transform Ethiopia into a socialist state with a far-reaching, highly popular land reform program and the nationalization of foreign-owned firms. Since the end of the war with Somalia in 1978, the military council has intensified these efforts, but they have yet to produce the desired results. [REDACTED]

The shortage of trained administrators and technicians has been a serious drawback to the regime's efforts to carry out its programs. Political purges, the needs of the military, and other disruptions have aggravated the shortage of skilled personnel, and a number of important posts within the civilian sector are filled by unqualified cadre. [REDACTED]

The initial public enthusiasm for the regime's plans has been undermined by the imposition of increasingly unpalatable measures. Last year's phased collectivization campaign, which began taking newly acquired land away from peasants and placing it under the control of the state, was particularly unpopular. The government also has run into problems in urban areas, where dissatisfaction is growing over the leadership's failure to live up to its promises and its continuous demands for "free labor." [REDACTED]

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Shortages of consumer goods and a 20-percent inflation rate also have contributed to the grumbling. Within the government, a number of senior and middle-level bureaucrats are disillusioned over the regime's emphasis on a socialist system despite its many failures.

Western aid has declined and economic assistance from Communist countries has not met Ethiopian expectations. Ethiopia's distrust of the US and of the West in general has made it reluctant to take steps--such as compensation for nationalized property or allowing a return of private investment--that would encourage the introduction of much needed capital and technology.

Political Trends

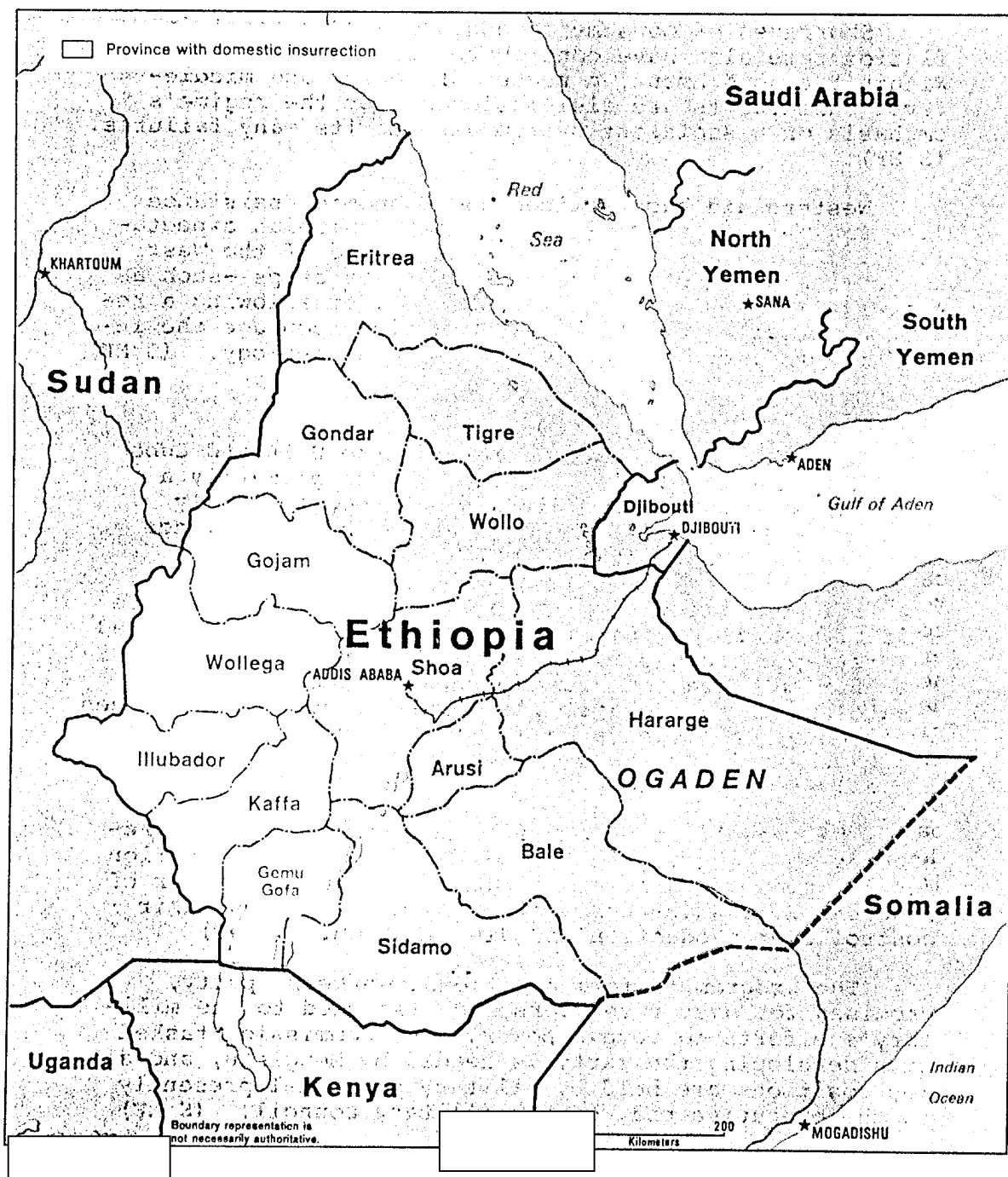
Despite the influential role of the USSR and Cuba in Ethiopia since 1977, Mengistu remains primarily a nationalist. His leadership has not been seriously challenged since 1977, although he has had to balance off competing factions.

The consolidation of Mengistu's power has been reflected in the government's policies. Collectivization, for example, may allow the regime to break the power of independent peasant associations, thus reducing their control over production and distribution.

The program to form a national workers' party, promised for over five years, is also tied to the military's efforts to retain power. The commission tasked with developing the party is headed by Mengistu, and all key positions are held by military personnel presently in the executive body of the military council.

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Military Distractions

The regime's efforts to develop a new society are constantly being interrupted by insurrection in nine of the country's 14 provinces. These include major insurgencies in the Ogadan, and in Eritrea and Tigre Provinces, and less troublesome guerrilla activity in Gondar, Arusi, and Wollo Provinces. Efforts to contain these insurgencies have required the maintenance of an armed force of over 230,000 troops, draining Ethiopia's economic and human resources. [redacted]

The government, fearing a concession to one insurgent group would only encourage others, continues to pursue military solutions. It shows no inclination to develop political programs to end the fighting [redacted]

[redacted]

Addis Ababa stands firm on its program of 1976 that calls for limited autonomy for ethnic minorities, and Mengistu appears to favor a centralized state with only token self-government in the provinces. [redacted]

[redacted]

[redacted]
[redacted]
paragraphs give insufficient weight to diplomatic developments over the past nine months or so, particularly the continuing dialogue between Mengistu and Sudanese President Nimeiri. [redacted]

[redacted] Mengistu may be close to offering a degree of autonomy to Eritrea as a region. This offer would be perceived by Eritreans as an improvement over the 1976 offer of limited autonomy to each ethnic minority in the province. Whether such an offer would lead to successful negotiations remains to be seen. [redacted]

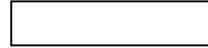
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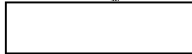
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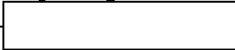
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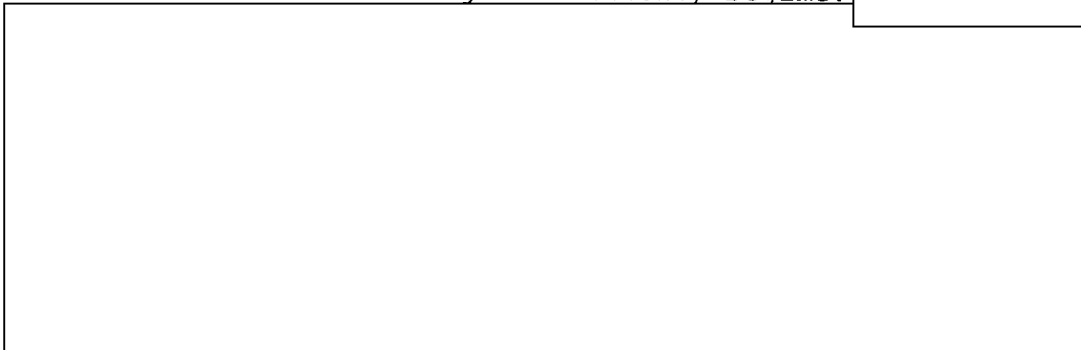
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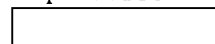
Outlook

Despite the government's problems and the decline in popular support, Mengistu and his military supporters face no immediate threat. The USSR and Cuba have large investments in Ethiopia and probably would try to prevent the regime's overthrow. 

In addition, Ethiopia's leaders have eliminated or neutralized radical and conservative opposition groups dedicated to overthrowing the military regime. 



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